

**PONTIAC ACADEMY FOR EXCELLENCE**  
Pontiac, Michigan

**FINANCIAL STATEMENTS**  
June 30, 2008

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# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## INDEPENDENT AUDITOR'S REPORT

November 9, 2008

To the Board of Directors  
Pontiac Academy for Excellence

We have audited the accompanying financial statements of the governmental activities of Pontiac Academy for Excellence as of and for the year ended June 30, 2008, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pontiac Academy for Excellence's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Pontiac Academy for Excellence as of June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Pontiac Academy for Excellence  
Page Two

In accordance with *Government Auditing Standards*, we have also issued a report dated November 9, 2008 on our consideration of the Academy's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Pontiac Academy for Excellence's basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Pontiac Academy for Excellence. The required supplemental information is required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. The required supplemental information, the other supplemental information and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Gardner, Proenzano, Schauman & Thomas P.C.*

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**PONTIAC ACADEMY FOR EXCELLENCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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This section of the Pontiac Academy for Excellence annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2008. Please read it in conjunction with the Academy's basic financial statements, which immediately follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Pontiac Academy for Excellence financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statement by providing information about the Academy's funds.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

**Basic Financial Statements**

Academy-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)  
Budgetary Information – General Fund

Other Supplemental Information

**Reporting the Academy as a Whole – Academy-wide Financial Statements**

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

**PONTIAC ACADEMY FOR EXCELLENCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Reporting the Academy as a Whole – Academy-wide Financial Statements  
(continued)**

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community, food service and athletics. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

**Reporting the Academy's Most Significant Fund – Fund Financial Statements**

The Academy's fund financial statements provide detailed information about the individual funds – not the Academy as a whole. Some funds are required to be established by State law and by bond covenants. However, the Academy establishes other funds to help it control and manage money for particular purposes (the food service fund, for example).

Governmental Fund – All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.



**PONTIAC ACADEMY FOR EXCELLENCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**The School District as Trustee – Reporting the School District's Fiduciary Responsibilities**

The Academy is the trustee, or fiduciary, for its student activity funds. All of the Academy's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Academy's other financial statements because the Academy cannot use these assets to finance its operations. The Academy is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**The Academy as a Whole**

Table 1

Assets	2008	2007
Current and other assets	\$ 2,146,966	\$ 1,788,862
Capital assets -		
Net of accumulated depreciation	675,721	769,920
Total Assets	<u>2,822,687</u>	<u>2,558,782</u>
Liabilities		
Current liabilities	990,504	861,212
Total Liabilities	<u>990,504</u>	<u>861,212</u>
Net assets		
Invested in capital assets -		
Net of related debt	675,721	769,920
Unrestricted	1,156,462	927,650
Total Net Assets	<u>\$ 1,832,183</u>	<u>\$ 1,697,570</u>

The above analysis focuses on the net assets (see Table 1). The Academy's net assets were \$1,832,183 at June 30, 2008. Capital assets, net of related debt totaling \$675,721, compares the original cost, less depreciation of the Academy's capital assets to long-term debt used to finance the acquisition of those assets. At June 30, 2008, there was no debt on capital assets. The remaining amount of net assets \$1,156,462 was unrestricted.

The \$1,156,462 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the general fund will have a significant impact on the change in unrestricted net assets from year to year.

**PONTIAC ACADEMY FOR EXCELLENCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**The Academy as a Whole (continued)**

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2008 and 2007.

	Table 2	
	Governmental Activities	
	2008	2007
Revenue		
Program revenue:		
Grants	\$ 1,864,919	\$ 2,236,513
Charge for services	23,077	6,314
General revenue		
State foundation allowance	8,007,024	7,343,308
Other	81,489	456
Interest	12,914	22,413
Total Revenue and Special Item	<u>9,989,423</u>	<u>9,609,004</u>
Function/Program expenses		
Instruction	4,389,577	4,339,844
Support services	4,447,107	4,097,334
Food services	542,181	553,442
Athletics	157,485	141,443
Community services	115,921	122,889
Interest on long-term debt	-	7,696
Depreciation (unallocated)	202,539	194,630
Total function/program expenses	<u>9,854,810</u>	<u>9,457,278</u>
Increase (decrease) in Net Assets	<u>\$ 134,613</u>	<u>\$ 151,726</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$9,854,810. Certain activities were partially funded by other governments that subsidized certain programs with \$1,864,919 in grants. We paid for the remaining "public benefit" portion of our governmental activities with \$8,007,024 in state foundation allowance, and with our other revenues.

The Academy experienced an increase in net assets of \$134,613. The increase in net assets was due to more efficiency in classroom scheduling. This allowed staffing to be reduced while serving the same number of students.

**PONTIAC ACADEMY FOR EXCELLENCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**The Academy's Funds**

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$1,134,901, which is an increase of \$207,251 in the general fund from last year.

The general fund balance increased due to higher revenues than originally anticipated and reduced personnel costs.

**General Fund Budgetary Highlights**

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

**First Versus Final Budget**

Significant variances between the first and final budget for revenue are as follows:

- State funding increased due to increased student enrollment. Actual enrollment was 29 students more than the original estimate.
- Federal funding was higher because Title I funding received was higher than the Academy originally estimated. In addition, the Academy received Title III funding which it had not included in the original budget.

Significant variances in expenditures between the first and final budget are as follows:

- The decrease in basic programs was due to the Academy being able to streamline its class scheduling, which allowed for the use of less staffing servicing more students, thus saving on the cost of staffing.
- The Academy contracted a consulting firm, Charter Management Alternatives, to aid in the school's transition to self management. The contract was originally set to expire after six months, however, the school board elected to extend the contract for an additional six months which increased the general administration costs.

**PONTIAC ACADEMY FOR EXCELLENCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Final Budget Versus Actual Results**

The variance in federal revenue is due to the Academy not receiving its entire allocation of federal funds due to the funds not being spent and/or over-requested. As a result, a portion of the funds will be deferred to the 2008-2009 school year, the remaining portion will be carried over and included in the 2008-2009 federal allocation.

Management believes the remaining variances between the final budget and actual results were not significant.

**Capital Assets and Debt Administration**

**Capital Assets**

As of June 30, 2008, the Academy had \$675,721 invested in capital assets. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$94,199, or 12%, from last year.

	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 222,120	\$ 220,790
Furniture and equipment	1,601,056	1,523,635
Computer equipment	<u>294,341</u>	<u>264,752</u>
Total Capital Assets	2,117,517	2,009,177
Less Accumulated Depreciation	<u>1,441,796</u>	<u>1,239,257</u>
Net Capital Assets	<u>\$ 675,721</u>	<u>\$ 769,920</u>

This year's capital outlay included various furniture, equipment, LCD televisions for classrooms, servers, and computers for classrooms and offices. No new debt was issued for any additions.

For the 2008-2009 year, the Academy has plans to purchase land in the amount of \$350,000 and construct a gymnasium on that property.

**Debt**

At the end of this year, the Academy had no long-term debt.

The Academy has plans to incur long term debt of \$350,000, payable over a period of ten years to purchase land. The Academy will also incur a long term debt in order to construct a gymnasium upon that property. The Academy will be seeking bids for the gymnasium, and as such, the amount and terms of the additional debt are unknown at this time.

**PONTIAC ACADEMY FOR EXCELLENCE  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Economic Factors and Next Year's Budgets and Rates**

Many factors are considered when setting the Academy's budget for the 2008-2009 fiscal year. One of the biggest factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008-2009 year is 25 percent of the February 2008 student count, and 75 percent of the September 2009 student count. The 2008-2009 budget was adopted in June as based on a projection of what the Academy's September student count would be. The actual September student count was slightly higher than the estimate used for the budget, and as such the revenue from the state foundation allowance will be slightly higher than anticipated. Approximately 80 percent of the Academy's revenue is from the foundation allowance. As a result the budget will be amended as required by state law, based on the actual student count.

## **BASIC FINANCIAL STATEMENTS**

Pontiac Academy for Excellence  
District Wide  
Statement of Net Assets  
June 30, 2008

	Governmental Activities
Assets	
Cash & cash equivalents	\$ 233,962
Due from other governmental units	1,779,053
Receivables	16,226
Prepays	117,725
Capital assets less accumulated depreciation	675,721
Total Assets	<u>2,822,687</u>
Liabilities	
Accounts payable	360,173
Accrued liabilities	533,812
Deferred revenue	96,519
Total Liabilities	<u>990,504</u>
Net Assets	
Invested in capital assets net of related debt	675,721
Unrestricted	1,156,462
Total Net Assets	<u>\$ 1,832,183</u>

The accompanying notes are an integral part of these financial statements.

Pontiac Academy for Excellence  
District Wide  
Statement of Activities  
For the Year Ended June 30, 2008

				Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	Expenses	Charges For Services	Operating Grants and Contributions	Governmental Activities
Instruction	\$ 4,389,577	\$ -	\$ 1,112,973	\$ (3,276,604)
Support services	4,447,107	-	344,657	(4,102,450)
Community services	115,921	-	-	(115,921)
Food services	542,181	23,077	407,289	(111,815)
Athletics	157,485	-	-	(157,485)
Depreciation (unallocated)	202,539	-	-	(202,539)
Totals	<u>\$ 9,854,810</u>	<u>\$ 23,077</u>	<u>\$ 1,864,919</u>	<u>(7,966,814)</u>
General revenues:				
State aid - unrestricted				8,007,024
Other				81,489
Interest				<u>12,914</u>
Total General Revenues				<u>8,101,427</u>
Change in Net Assets				134,613
Net Assets - Beginning of Year				1,697,570
Net Assets - End of Year				<u>\$ 1,832,183</u>

The accompanying notes are an integral part of these financial statements.



Pontiac Academy for Excellence  
Balance Sheet  
June 30, 2008

	General Fund	Food Service	Athletics	Totals
<u>Assets</u>				
Cash & cash equivalents	\$ 233,962	\$ -	\$ -	\$ 233,962
Receivables	16,226	-	-	16,226
Due from other governmental units	1,757,492	-	-	1,757,492
Prepaid expenditures	117,725	-	-	117,725
Total Assets	<u>\$ 2,125,405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,125,405</u>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 360,173	\$ -	\$ -	\$ 360,173
Accrued liabilities	533,812	-	-	533,812
Deferred revenue	96,519	-	-	96,519
Total Liabilities	<u>990,504</u>	<u>-</u>	<u>-</u>	<u>990,504</u>
<u>Fund Balance</u>				
Unreserved and undesignated	1,134,901	-	-	1,134,901
Total Fund Balance	<u>1,134,901</u>	<u>-</u>	<u>-</u>	<u>1,134,901</u>
Total Liabilities and Fund Balance	<u>\$ 2,125,405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,125,405</u>

The accompanying notes are an integral part of these financial statements.

Pontiac Academy for Excellence  
Reconciliation of Balance Sheet of Governmental Funds To Net Assets  
June 30, 2008

Total Fund Balances - Governmental Funds	\$ 1,134,901
Amounts reported for governmental activities in the statement of net assets are different because:	
In the fund statements accounts receivable are not recognized unless measurable and available	21,561
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is	2,117,517
Accumulated depreciation is	(1,441,796)
Total Net Assets - Governmental Activities (Academy Wide)	<u>\$ 1,832,183</u>

The accompanying notes are an integral part of these financial statements.

Pontiac Academy for Excellence  
Governmental Funds  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Year Ended June 30, 2008

	General	Food Service	Athletics	Totals
Revenue				
Local	\$ 27,812	\$ 23,077	\$ -	\$ 50,889
State	8,567,963	13,567	-	8,581,530
Federal	860,232	393,722	-	1,253,954
Total Revenue	<u>9,456,007</u>	<u>430,366</u>	<u>-</u>	<u>9,886,373</u>
Expenditures				
Instruction				
Basic programs	3,331,162	-	-	3,331,162
Added needs	1,166,755	-	-	1,166,755
Support Services				
Pupil	355,334	-	-	355,334
Instructional staff	351,532	-	-	351,532
General administration	875,773	-	-	875,773
School administration	422,301	-	-	422,301
Business	216,872	-	-	216,872
Operation and maintenance	1,914,999	-	-	1,914,999
Pupil transportation services	135,105	-	-	135,105
Central services	175,191	-	-	175,191
Community services	115,921	-	-	115,921
Food service	-	542,181	-	542,181
Athletics	-	-	157,485	157,485
Total Expenditures	<u>9,060,945</u>	<u>542,181</u>	<u>157,485</u>	<u>9,760,611</u>
Excess (Deficiency) of				
Revenues over Expenditures	395,062	(111,815)	(157,485)	125,762
Other Financing Sources (Uses)				
Sources	81,489	111,815	157,485	350,789
Uses	(269,300)	-	-	(269,300)
Total Other Financing Sources (Uses)	<u>(187,811)</u>	<u>111,815</u>	<u>157,485</u>	<u>81,489</u>
Net Change in Fund Balance	207,251	-	-	207,251
Fund Balance, Beginning	927,650	-	-	927,650
Fund Balance, Ending	<u>\$ 1,134,901</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,134,901</u>

The accompanying notes are an integral part of these financial statements.

Pontiac Academy for Excellence  
Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2008

Net Change in Fund Balances - Governmental Funds	\$ 207,251
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Amounts reported for governmental activities in the statement  
of activities are different because:

In the fund statements revenue is not recognized unless measurable and available	21,561
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Governmental funds report capital outlay as expenditures;  
in the statement of activities, these costs are capitalized  
and depreciated over their estimated useful lives.

Depreciation expense	(202,539)
Capital outlay	108,340

Change in Net Assets of Governmental Activities (Academy Wide)	<u>\$ 134,613</u>
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The accompanying notes are an integral part of these financial statements.

Pontiac Academy for Excellence  
Fiduciary Fund  
Statement of Fiduciary Net Assets  
June 30, 2008

Assets

Cash, student organizations	\$ 1,947
Total Assets	<u>\$ 1,947</u>

Liabilities

Due to student organizations	\$ 1,947
Total Liabilities	<u>\$ 1,947</u>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

**PONTIAC ACADEMY FOR EXCELLENCE  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1--Summary of Significant Accounting Policies**

The accounting policies of Pontiac Academy for Excellence (the Academy) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy.

**Reporting Entity**

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On January 27, 1997, the Academy entered into a five-year contract with the Saginaw Valley State University Board of Trustees to charter a public school academy, which was subsequently extended through June 30, 2009. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The Saginaw Valley State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Trustees three percent of the state aid foundation as administrative fees. The total administrative fees for the year ended June 30, 2008, to the Saginaw Valley State University Board of Trustees was \$242,050.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of the criteria, the entity does not contain component units.

**Academy-wide and Fund Financial Statements**

The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered governmental activities.

**PONTIAC ACADEMY FOR EXCELLENCE  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1--Summary of Significant Accounting Policies (continued)**

**Academy-wide and Fund Financial Statements (continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are normally reported as separate columns in the fund financial statements. The Academy has elected to show all funds. Neither the food service nor the athletics fund would have been determined as major funds.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Academy-wide Financial Statements** – The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Fund Financial Statements** – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.



**PONTIAC ACADEMY FOR EXCELLENCE  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1--Summary of Significant Accounting Policies (continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

Fiduciary fund statements are also reported using the economic resources measurement focus and accrual basis of accounting. The Student Activities Agency Fund is maintained to record the transactions of the student group for school and school related purposes. The fund is segregated and held in trust for the students.

The Academy reports the following major governmental fund:

The general fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Additionally, the Academy reports the following fund type:

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Academy's special revenue funds include the food services fund and athletics fund. Any operating deficit generated by these activities is the responsibility of the general fund.

**Assets, Liabilities, and Net Assets or Equity**

**Cash** – Cash includes cash on hand and demand deposits.

**Receivables** – The Academy receivables consist of revenue earned at year-end but not yet received.

**Prepaid** – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Academy-wide and fund financial statements.

**Capital Assets** – Capital assets, which include leasehold improvements, furniture and fixtures, and computer equipment, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure type assets.

**PONTIAC ACADEMY FOR EXCELLENCE  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1--Summary of Significant Accounting Policies (continued)**

Leasehold improvements, furniture and equipment, and computer equipment are depreciated using the straight-line method over the following useful lives:

Leasehold improvements	6-12 years
Furniture and other equipment	7 years
Computer equipment	5 years

**Accounts Payable** – Accounts payable consists of items which the Academy benefited during the current year but has not yet paid.

**Accrued Liabilities** – Accrued liabilities are items related to personnel costs.

**Deferred Revenue** – Deferred revenue represents amounts for which the Academy has received but has not earned at year-end.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. At June 30, 2008, the Academy had no reserved or designated fund balance.

**NOTE 2--Stewardship, Compliance and Accountability**

**Budgetary Information** – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, and object. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy adjusted budgeted amounts during the year in response to actual and projected activity.

**PONTIAC ACADEMY FOR EXCELLENCE  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 2--Stewardship, Compliance and Accountability (continued)**

Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** – During the year, the Academy incurred expenditures in the general fund, which were in excess of the amounts budgeted, as illustrated in the supplemental information.

**NOTE 3--Deposits and Investments**

The Academy is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks, and
- f. Mutual funds – investments which local unit can make directly.

The investment policy is in accordance with the Revised School code of Michigan and its primary objectives, in priority order, of investments shall be, safety, liquidity and yield.

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy evaluates financial institutions and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year-end, the Academy's deposit balance of \$302,927 had \$202,832 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. Subsequent to June 30, 2008, the FDIC insured limit was raised from \$100,000 to \$250,000.

**PONTIAC ACADEMY FOR EXCELLENCE  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4--Capital Assets**

Capital asset activity of the Academy's governmental activities was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Capital assets subject to depreciation				
Leasehold improvements	\$ 220,790	\$ 1,330	\$ -	\$ 222,120
Furniture and equipment	1,523,635	77,421	-	1,601,056
Computer equipment	264,752	29,589	-	294,341
Subtotal	<u>2,009,177</u>	<u>108,340</u>	<u>-</u>	<u>2,117,517</u>
Accumulated depreciation				
Leasehold improvements	45,913	20,818	-	66,731
Furniture and equipment	1,094,953	124,344	-	1,219,297
Computer equipment	98,391	57,377	-	155,768
Subtotal	<u>1,239,257</u>	<u>202,539</u>	<u>-</u>	<u>1,441,796</u>
Total Net Capital Assets	<u>\$ 769,920</u>	<u>\$ (94,199)</u>	<u>\$ -</u>	<u>\$ 675,721</u>

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical. The total amount of capital leases recorded as assets is \$187,700.

**NOTE 5--Operating Leases**

During the year ended June 30, 2005, the Academy entered into a lease agreement for a building through June 30, 2015. Rent expense is calculated based on a set amount per square foot of leased space, adjusted for consumer price index each year. The amount expensed under the lease for the year ended June 30, 2008 was \$1,264,341. Minimum estimated annual payments required under the lease are as follows:

For the Year Ended June 30,	Payments
2009	\$ 1,338,157
2010	1,378,301
2011	1,419,650
2012	1,462,240
2013	1,900,912
2014 and after	3,974,617
Total	<u>\$ 11,473,877</u>

**PONTIAC ACADEMY FOR EXCELLENCE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 5--Operating Leases (continued)**

The Academy also has leases for its copiers. Monthly lease payments of \$3,051 are based upon a minimum number of images per month. Overages will be charged periodically throughout the year. The amount expensed under the leases for the year ended June 30, 2008 was \$53,406. Minimum estimated annual payments required under the lease are as follows:

<u>June 30,</u>	<u>Payments</u>
2009	\$ 36,612
2010	36,612
2011	36,612
2012	36,612
Total	<u>\$ 146,448</u>

**NOTE 6--Contracts**

Effective July 1, 2005, the Academy signed a transitional management consulting agreement with Charter Management Alternative, LLC through December 31, 2007, to assist the Academy in the transition from being operated by a management company to self management. The agreement was extended to cover the remainder of the June 30, 2008 fiscal year and into the 2008-2009 fiscal year. The amount expensed for the year ended June 30, 2008 was \$250,000.

The Academy subcontracts all employees from Charter School Services of Michigan, Inc. and reimburse all personnel related expenses.

**NOTE 7--Risk Management**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company is covered by insurance held by the employee leasing company discussed. The Academy has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

**PONTIAC ACADEMY FOR EXCELLENCE  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8--Short-Term Debt**

During the year, the Academy borrowed \$1,000,000 in a state aid anticipation note. The note bore interest at 4.87 percent and was paid in full at June 30, 2008. The following are the changes in short-term debt:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
Governmental Activities				
State Aid anticipation note	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -
Totals	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -

The proceeds from the State Aid anticipation note were used to sustain operations until the Academy received State Aid.

**NOTE 9--Subsequent Event**

Subsequent to year-end, the Academy borrowed \$1,000,000 at 4.06 percent annual interest rate on a state aid anticipation note.

Subsequent to year-end, the Academy has entered into a purchase agreement to purchase land to construct a gymnasium.

**NOTE 10--Grant Program**

All grant programs are subject to a final audit from the grantor agency, the outcome of which may or may not result in disallowed costs that the Academy may be required to pay back.

**NOTE 11--Interfund Transfers**

Fund	Transfer In	Fund	Transfer Out
Food Service	\$ 111,815	General	\$ 111,815
Athletics	157,485	General	157,485
	\$ 269,300		\$ 269,300

The transfers to the food service and athletics funds were to subsidize those programs.

## **REQUIRED SUPPLEMENTAL INFORMATION**

Pontiac Academy For Excellence  
Budgetary Comparison  
For The Year Ended June 30, 2008

	General Fund				Special Revenue Funds (Food Service and Athletics)			
	First Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	First Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue								
Local	\$ 21,000	\$ 22,800	\$ 27,812	\$ 5,012	\$ -	\$ 16,000	\$ 23,077	\$ 7,077
State	8,286,916	8,569,565	8,567,963	(1,602)	15,000	13,567	13,567	-
Federal	927,531	1,072,607	860,232	(212,375)	400,000	375,000	393,722	18,722
Other Sources and transfers in	72,548	72,548	81,489	8,941	235,225	233,116	269,300	36,184
Total Revenues	9,307,995	9,737,520	9,537,496	(200,024)	650,225	637,683	699,666	61,983
Expenditures								
Instruction								
Basic programs	3,408,220	3,281,815	3,331,162	(49,347)	-	-	-	-
Added needs	1,228,056	1,191,550	1,166,755	24,795	-	-	-	-
Support Services								
Pupil	412,355	354,998	355,334	(336)	-	-	-	-
Instructional staff	321,306	378,423	351,532	26,891	-	-	-	-
General administration	702,617	848,229	875,773	(27,544)	-	-	-	-
School administration	399,389	388,159	422,301	(34,142)	-	-	-	-
Business	239,689	228,465	216,872	11,593	-	-	-	-
Operation and maintenance	1,994,328	1,964,808	1,914,999	49,809	-	-	-	-
Pupil transportation services	55,000	130,000	135,105	(5,105)	-	-	-	-
Central services	149,659	194,588	175,191	19,397	-	-	-	-
Community services	96,506	124,675	115,921	8,754	-	-	-	-
Food service	-	-	-	-	497,478	496,657	542,181	45,524
Athletic activities	-	-	-	-	152,747	141,026	157,485	16,459
Outgoing transfers and debt service	-	-	-	-	-	-	-	-
Total Expenditures	235,225	237,116	269,300	(32,184)	-	-	-	-
Excess (Deficiency) of	9,242,350	9,322,826	9,330,245	(7,419)	650,225	637,683	699,666	61,983
Revenues Over Expenditures	65,645	414,694	207,251	(207,443)	-	-	-	-
Fund Balance - Beginning of Year	927,650	927,650	927,650	-	-	-	-	-
Fund Balance - End of Year	\$ 993,295	\$ 1,342,344	\$ 1,134,901	\$ (207,443)	\$ -	\$ -	\$ -	\$ -



## **OTHER SUPPLEMENTAL INFORMATION**



**Gardner | Provenzano  
Schauman & Thomas**

**CERTIFIED PUBLIC ACCOUNTANTS**

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

November 9, 2008

Board of Directors  
Pontiac Academy for Excellence

We have audited the financial statements of the governmental activities of Pontiac Academy for Excellence as of and for the year ended June 30, 2008, and have issued our report thereon dated November 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Pontiac Academy for Excellence's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pontiac Academy for Excellence's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pontiac Academy for Excellence's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Pontiac Academy for Excellence's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Pontiac Academy for Excellence's financial statements that is more than inconsequential will not be prevented or detected by Pontiac Academy for Excellence's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-1, 2008-2 and 2008-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Pontiac Academy for Excellence's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we considered all items to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Pontiac Academy for Excellence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors  
Pontiac Academy for Excellence  
Page Three

We noted certain matters that we reported to the management of Pontiac Academy for Excellence in a separate letter dated November 9, 2008.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Academy's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Gardner, Provenzano, Schawman & Thomas, P.C.*

Certified Public Accountants



# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR-A133

November 9, 2008

Board of Directors  
Pontiac Academy for Excellence

### Compliance

We have audited the compliance of the Pontiac Academy for Excellence with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The major federal programs of the Pontiac Academy for Excellence are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Pontiac Academy for Excellence's management. Our responsibility is to express an opinion on the Pontiac Academy for Excellence's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Pontiac Academy for Excellence's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Pontiac Academy for Excellence's compliance with those requirements.

In our opinion, the Pontiac Academy for Excellence complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

#### Internal Control Over Compliance

The management of the Pontiac Academy for Excellence is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Pontiac Academy for Excellence's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pontiac Academy for Excellence's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type or compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses above. We did not identify any deficiencies in internal control over compliance that we consider to material weaknesses as described above.

To the Board of Directors  
Pontiac Academy for Excellence  
Page Three

This report is intended solely for the information and use of the Board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Gardner, Provengano, Schaumman & Thomas, P.C.*

Certified Public Accountants

Pontiac Academy for Excellence  
Schedule of Expenditures of Federal Awards  
For Fiscal Year Ended June 30, 2008

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued or (Deferred) Revenue at July 1, 2007	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2008
<b>Clusters:</b>								
<b>U.S. Department of Agriculture Clusters:</b>								
Passed Through MDE								
National School Breakfast Program								
071970 Breakfast (2006-2007)	10.553	\$ 77,270	\$ 77,270	\$ 4,240	\$ -	\$ 4,240	\$ -	\$ -
071970 Breakfast (2007-2008)		6,226	-	-	-	6,226	6,226	-
081970 Breakfast (2007-2008)		64,704	-	-	-	64,704	64,704	-
Total		148,200	77,270	4,240	-	75,170	70,930	-
National School Lunch Program								
071950 & 071960 Lunch (2006-2007)	10.555	266,703	286,703	17,804	-	17,804	-	-
071950 & 071960 Lunch (2007-2008)		31,892	-	-	-	31,892	31,892	-
081950 & 081960 Lunch (2007-2008)		258,085	-	-	-	258,085	258,085	-
Total		556,680	286,703	17,804	-	307,781	289,977	-
National School Snack Program								
	10.555	5,796	-	-	-	5,796	5,796	-
Passed through MDE Food Distribution:								
Entitlement Commodities	10.550	27,019	-	-	-	27,019	27,019	-
Total Child Nutrition Cluster		737,695	363,973	22,044	-	415,765	393,722	-
<b>Other Federal Awards:</b>								
Department of Education:								
Passed through MDE:								
Title I Cluster	84.010							
Project number 071530 0607		575,461	532,121	(29,279)	-	(21,861)	7,418	-
Project number 081530 07/08		768,308	-	-	21,861	500,559	640,332	117,912
Total Title I Cluster		1,343,769	532,121	(29,279)	21,861	478,698	647,750	117,912

See Notes to Schedule of Expenditures of Federal Awards.



Pontiac Academy for Excellence  
Schedule of Expenditures of Federal Awards  
For Fiscal Year Ended June 30, 2008

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued or (Deferred) Revenue at July 1, 2007	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2008
Department of Education:								
Passed through MDE:								
Title II D, Regular	84.318							
Project number 074290 0607		6,486	4,372	2,978	-	4,803	1,825	-
Project number 084290 0708		6,637	-	-	289	2,904	1,584	(1,609)
Total Title II D, Regular		13,123	4,372	2,978	289	7,707	3,409	(1,609)
Title V	84.298							
Project Number 060250 0607		2,567	2,062	1,461	-	1,966	505	-
Project Number 070250 0607		5,115	4,467	(648)	-	(648)	-	-
Project Number 080250 0708		6,137	-	-	-	-	1,637	1,637
Total Title V		13,819	6,529	813	-	1,318	2,142	1,637
Title III Limited English	84.365A							
Project Number 080580 0708		19,924	-	-	-	9,000	19,924	10,924
Title II Part A	84.367							
Project number 060520 0607		300	300	300	-	300	-	-
Project number 070520 0607		52,425	40,600	(9,198)	-	(4,476)	4,722	-
Project number 080520 0708		63,500	-	-	4,476	37,594	52,557	10,487
Total Improving Title II Part A		116,225	40,900	(8,898)	4,476	33,418	57,279	10,487
Total non cluster programs passed through MDE		163,091	51,801	(5,107)	4,765	51,443	82,754	21,439
Passed through Oakland County-RESA IDEA:	84.207A							
Project number 080450		165,620	-	-	-	165,620	165,620	-
Project number 080450		3,943	-	-	-	3,943	3,943	-
Total non cluster programs passed Oakland County-RESA		169,563	-	-	-	169,563	169,563	-
Total Federal Financial Assistance		\$ 2,414,118	\$ 947,895	\$ (12,342)	\$ 26,626	\$ 1,115,470	\$ 1,293,789	\$ 139,351

See Notes to Schedule of Expenditures of Federal Awards.

PONTIAL ACADEMY FOR EXCELLENCE  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008

**NOTE 1--Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Pontiac Academy for Excellence and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2--Grant Section Auditor's Report**

Management has utilized Form R-7120 in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

**NOTE 3--Reconciliation of Revenue Reported in the Financial Statements to the Schedule of Federal Expenditures of Federal Awards**

Federal expenditures as reported on the Schedule of Expenditures of Federal Awards	\$ 1,293,789
Grants expended in 2007-2008 but not requested	
Title III Limited English 080580 07/08	(10,924)
Title II V 080250 2007-2008	(1,637)
Grant adjustments	
Title I 071530 2006-2007	(21,861)
Title II A 070520 2006-2007	(4,476)
Title V A 070250 2006-2007	(648)
Title II D 074290 2006-2007	(289)
Federal revenue as reported in the fund level statements	<u>\$ 1,253,954</u>

PONTIAC ACADEMY FOR EXCELLENCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008

**Section I – Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:      Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?      ☒ Yes      ☐ No
- Significant deficiencies identified that are not considered to be material weaknesses?      ☐ Yes      ☒ None reported

Noncompliance material to financial statements noted?      ☐ Yes      ☒ No

**Federal Awards**

Internal control over major program(s)?

- Material weakness(es) identified?      ☐ Yes      ☒ No
- Significant deficiencies identified that are not Considered to be material weaknesses?      ☐ Yes      ☒ None reported

Type of auditor's report issued on compliance for major program(s):      Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?      ☐ Yes      ☒ No

Identification of major program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
84.010	Title I

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low risk auditee?      ☐ Yes      ☒ No

See Notes to Schedule of Expenditures of Federal Awards.

PONTIAC ACADEMY FOR EXCELLENCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2008

**Section II – Financial Statement Audit Findings**

<u>Reference Number</u>	<u>Findings</u>
Finding	2008-1
	<u>Criteria</u>
	Establishment and maintenance of internal controls over monitoring the financial reporting process mainly the disbursement of funds.
	<u>Condition</u>
	During testing of internal controls, paid invoices were found without appropriate approval, payments were made to vendors for which the invoice could not be located, checks in excess of the \$5,000 threshold were found without dual signatures, and one vendor was found paid where services were not rendered.
	<u>Questioned Costs</u>
	Unknown
	<u>Cause</u>
	Internal control procedures adopted by the Academy's Board of Directors were not followed.
	<u>Effect</u>
	Auditor could not rely on internal controls and audit procedures were expanded. In addition, inappropriate expenditures could be occurring.
	<u>Recommendation</u>
	We recommend management review, monitor and enforce adopted internal control policies with all appropriate staff.
	<u>Management's Response</u>
	The Board of Directors, along with the Superintendent/CAO has reorganized the business office and will be bringing in a Director of Business and Operations to supervise the business office to ensure that all policies and procedures are followed.

PONTIAC ACADEMY FOR EXCELLENCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2008

**Section II – Financial Statement Audit Findings**

<u>Reference Number</u>	<u>Findings</u>
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Finding 2008-2

Criteria

The Academy is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance from which the basic financial statements are derived. The auditors should be able to audit accounts which have been adjusted through the closing process.

Condition

At the time of our scheduled field work in August, the Academy's funds were not effectively closed out and in a proper state for audit. Numerous significant adjustments were necessary to agree key accounts to their proper underlying balances.

Questioned Costs

None

Cause

Internal controls did not detect all adjustments necessary to properly record year-end adjustments in the current year or the prior year. The Academy had a transition in its staff during the year, and was without a Director of Operations for a period of time.

Effect

As a result of this condition, the Academy was not able to produce accurate financial information, which resulted in the audit being delayed. In addition, we do not believe the Board of Directors could have received accurate financial information throughout the year.

Recommendation

The Academy should review trial balances and report annual financial activity for accuracy before submission to auditor.

Management's Response

The Academy will be bringing in a Director of Business and Operations to supervise the accounting department. This will ensure that the trial balance will report accurate financial information at the time of audit.

PONTIAC ACADEMY FOR EXCELLENCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2008

**Section II – Financial Statement Audit Findings**

<u>Reference Number</u>	<u>Findings</u>
Finding	2008-3
	<u>Criteria</u>
	A credit card policy was adopted to ensure proper internal control over charges made.
	<u>Condition</u>
	Credit card charges were found and payments made without the required items per the credit card policy as follows:
	<ul style="list-style-type: none"><li>• Purpose of transaction</li><li>• Account number to be charged</li><li>• Supervisor's authorization</li><li>• Invoices attached</li></ul>
	<u>Questioned Costs</u>
	Unknown
	<u>Cause</u>
	The credit card policy adopted by the Academy's Board of Directors was not followed.
	<u>Effect</u>
	Inappropriate expenditures could be occurring. Internal controls for credit card purchases are not effective.
	<u>Recommendation</u>
	The Academy should review and enforce the credit card policy.
	<u>Management's response</u>
	The Academy's credit card is currently in the possession of the school accountant. He will be responsible for ensuring Board policies are followed with regard to credit card usage.

PONTIAC ACADEMY FOR EXCELLENCE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)  
FOR THE YEAR ENDED JUNE 30, 2008

**Section III – Federal Program Audit Findings**

None

PONTIAC ACADEMY FOR EXCELLENCE  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008

**Section IV – Prior Year Findings**

No matters reported.





Gardner | Provenzano  
Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

November 9, 2008

To the Board of Directors  
Pontiac Academy for Excellence  
196 Cesar E. Chavez Avenue  
Pontiac, Michigan 48343

We appreciate the opportunity to conduct your audit this year. As we've discussed with you previously, we are writing to you as we complete the audit to communicate any control deficiencies we identified during the audit and determined to be significant deficiencies or material weaknesses. This communication is a requirement of the new auditing standard: **Statement on Auditing Standards (SAS) 112: Communicating Internal Control Related Matters Identified in an Audit**. The new standard applies to the audits of any financial statements with periods ending on or after December 15, 2006.

In planning and performing our audit of your financial statements for period ending June 30, 2008, we applied generally accepted auditing standards (GAAS) as we considered your internal control over financial reporting (internal control) as a basis for designing our auditing procedures. We did this for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of your internal controls. Accordingly, as a part of your audit, we are not expressing an opinion on the effectiveness of your internal control.

Our consideration of internal control was for the limited purpose of conducting your organization's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did identify certain deficiencies in internal control that we consider to be material weaknesses that are discussed below. It is important to note that control deficiencies are not necessarily problems you will choose to address; however, they do represent potential risks. Our job as your auditors is to ensure that you understand where you have these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to these risks. In this year's audit, we identified the following:

### **Significant Deficiencies**

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects your entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of your financial statements that is more than inconsequential will not be prevented or detected by your internal control.

### **Material Weaknesses**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by your internal control. We believe that the following deficiencies constitute material weaknesses:

#### **Finding 2008-1**

##### **Criteria**

Establishment and maintenance of internal controls over monitoring the financial reporting process mainly the disbursement of funds.

##### **Condition**

During testing of internal controls, paid invoices were found without appropriate approval, payments were made to vendors for which the invoice could not be located, checks in excess of the \$5,000 threshold were found without dual signatures, and one vendor was found paid where services were not rendered.

##### **Questioned Costs**

Unknown

##### **Cause**

Internal control procedures adopted by the Academy's Board of Directors were not followed.

Effect

Auditor could not rely on internal controls and audit procedures were expanded. In addition, inappropriate expenditures could be occurring.

Recommendation

We recommend management review, monitor and enforce adopted internal control policies with all appropriate staff.

Management's Response

The Board of Directors, along with the Superintendent/CAO has reorganized the business office and will be bringing in a Director of Business and Operations to supervise the business office to ensure that all policies and procedures are followed.

Finding 2008-2

Criteria

The Academy is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance from which the basic financial statements are derived. The auditors should be able to audit accounts which have been adjusted through the closing process.

Condition

At the time of our scheduled field work in August, the Academy's funds were not effectively closed out and in a proper state for audit. Numerous significant adjustments were necessary to agree key accounts to their proper underlying balances.

Questioned Costs

None

Cause

Internal controls did not detect all adjustments necessary to properly record year-end adjustments in the current year or the prior year. The Academy had a transition in its staff during the year, and was without a Director of Operations for a period of time.

Effect

As a result of this condition, the Academy was not able to produce accurate financial information, which resulted in the audit being delayed. In addition, we do not believe the Board of Directors could have received accurate financial information throughout the year.

Recommendation

The Academy should review trial balances and report annual financial activity for accuracy before submission to auditor.

Management's Response

The Academy will be bringing in a Director of Business and Operations to supervise the accounting department. This will ensure that the trial balance will report accurate financial information at the time of audit.

Finding 2008-3

Criteria

A credit card policy was adopted to ensure proper internal control over charges made.

Condition

Credit card charges were found and payments made without the required items per the credit card policy as follows:

- Purpose of transaction
- Account number to be charged
- Supervisor's authorization
- Invoices attached

Questioned Costs

Unknown

Cause

The credit card policy adopted by the Academy's Board of Directors was not followed.

Effect

Inappropriate expenditures could be occurring. Internal controls for credit card purchases are not effective.

Recommendation

The Academy should review and enforce the credit card policy.

Management's response

The Academy's credit card is currently in the possession of the school accountant. He will be responsible for ensuring Board policies are followed with regard to credit card usage.

Other Comments

We noted some employees were reimbursed for meals based upon only a credit card receipt that did not contain detail in regard to the charges.

In order to ensure that charges are appropriate, we recommend employees be required to submit a detailed receipt for reimbursement.

We are available to answer any questions that you may have related to the control deficiencies we identified during your audit or discuss the benefits and associated costs of any options you have for remedying them if you would like to do so. If you would like to set up a meeting to discuss this communication or your organization's internal controls, please feel free to contact me.

We appreciate the opportunity to conduct your organization's audit.

Sincerely,

*Gardner, Provenzano, Schauman & Thomas, P.C.*

Gardner, Provenzano, Schauman & Thomas, P.C.